

Jaffna Municipal Council

Jaffna District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 April 2014 and the financial statements for the preceding year had been presented on 13 March 2013. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 29 December 2014.

1.2 Opinion

In my opinion, except for the effects on the financial statements of the matters referred to in paragraph 1.3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Jaffna Municipal Council as at 31 December 2013 and the financial result of its operations and cash flow for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

(a) The accounting deficiencies observed in the financial statements are shown in the following table as revenue, liabilities and expenditure.

Effect on Financial Statements	Revenue		Liabilities		Expenditures	
	No. of Instances	Value	No. of Instances	Value	No. of Instances	Value
		Rs.		Rs.		Rs.
Understatements	01	397,450	02	497,191	-	25,754,931
Overstatements	01	898,833	03	532,002	01	81,089
Omissions			02	149,991,300		

(b) Land and Buildings of the Sabha had not been valued and shown in the final accounts.

- (c) Four motor vehicles and a caterpillar machine donated to the Sabha during the year under review had not been valued and brought to account thereby understating the value of vehicles in the accounts.

1.3.2 Unreconciled Accounts

- (a) Sundry debtors shown in the final accounts amounting to Rs.3,353,575 had not been shown in the register of sundry debtors and as such the balances of sundry debtors could not be reconciled.
- (b) Staff loan balances of Rs.26,783,572 shown in the main ledger had been shown as Rs.26,806,845 in the final accounts.

1.3.3 Lack of Evidence for Audit

- (a) Four transactions amounting to Rs.14,688,096 could not be vouched in audit due to non-remission of necessary information for audit.
- (b) Replies for three audit queries of 2013 amounting to Rs.227,120,408 had not been furnished.

1.3.4 Non-compliance

The following instances of non-compliance with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations

Non-compliance

Municipal Councils Ordinance of 1987

Chapter 252
Section 42(1)

– Thirty one unauthorized temporary stalls had been converted to permanent stalls. But, action had not been taken by the Council in this regard.

Section 188(L) of Chapter 252

– Action had not been taken with regard 25 unauthorized telecommunication towers. A sum of Rs.527,400 had been spent from the funds of the Council to felicitate Artistes.

Financial Regulation 849(2) of the Democratic Socialist Republic Sri Lanka

Expenditure on overseas telephone calls of the mayor and members of the Council amounting to Rs.91,681 had been incurred by the Council.

Financial Rules of the Northern Provincial Council
101 and 102

Internal audit programmes and internal audit reports had not been furnished to the Auditor General.

Financial Regulation No.571

Action had not been taken with regard to sundry deposits of Rs.3,682,524 exceeding 2 years.

Procurement Guideline of 2006 3.4

Not less than 5 sealed quotations should be obtained for purchases exceeding Rs.2million. However, quotations had not been called for, for purchases of vehicles for Rs.3,600,000.

Circular regarding Input/ Output Tax with regard to the value Added Tax circular No.2011/07 of the Department of Inland Revenue

- (i) The value added tax of Rs.375,714 with regard to the purchase of Micro Rhino vehicle had not been subjected to Input Tax.
- (ii) The value added tax of Rs.86,383 with regard to the purchase of three phased submotor with pump had not been subjected to Input Tax.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha for the year under review was Rs.61,717,687 as compared with the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs.15,988,563.

2.2 Financial Control

It was observed in audit that there was a difference of Rs.198,886,695 between the budgeted and actual revenue and a difference of Rs.248,858,159 between the budgeted and actual expenditure due to lack of proper preparation of budget.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information relating to the estimated revenue, actual revenue and the arrears of revenue, as presented by the Mayor, appear below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
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	Rs.000	Rs.000	Rs.000
(i) Rates and Taxes	21,403	59,462	46,157
(ii) Lease Rent	64,270	59,726	-
(iii) Licence Fees	36,629	54,031	-
(iv) Other Revenue	604,420	354,615	162,970

2.3.2 Loss of Revenue

The Council had granted approval for installation of 09 Telecommunication Towers during 2004-2013. But, installation certificates had not been granted to 03 telecommunication towers so far. As a result, the Council had lost the revenue of Rs.36,000.

2.3.3 Arrears of Revenue

Legal or effective action had not been taken by the Council to recover rates and taxes, lease rent and licence fees amounting to Rs.55,314,724 for the year under review and the previous years.

2.3.4 Court Fines

During the period January to November of the year under review, court fines amounting to Rs.6,578,508 had been recovered from the Magistrate's Court under various ordinances. Court fines for the month of December amounting to Rs.45,625 had not been recovered upto end of the year under review.

2.3.5 Stamp Fees

(a) Out of the stamp fees of Rs.123,984,738 recoverable from the Registrar General for 2011 and 2012, a sum of Rs.59,966,058 only had been shown as revenue and recoverables. Effective action had not been taken for recovery of stamp fees.

- (b) The list of stamp fees for the year 2013 showing Rs.29,781,810 as recoverable had been received. But, this had not been accounted for.

2.4 Human Resources Management

A sum of Rs.77,884,742 had been paid as salaries and allowances for labourers during the year under review. But, copies of appointments of those labourers had not been furnished to audit.

2.5 Recovery of Telephone Charges

The Municipal Commissioner had informed that the sum of Rs.49,238 due from 13 members with regard to unauthorized calls obtained by them would be recovered as per audit query dated 07 August 2014, But, recoveries had not been made upto the date of this report.

2.6 Unauthorized Stalls

Temporary stalls given on rent by the Council had become permanent structures with permanent walls, cemented floor etc., The Council had not taken action against these unauthorized structures.

2.7 Staff Loans Recoverable

Arrears of loans due from interdicted/ retired officers amounting to Rs.748,354 continued to be shown in the accounts for over 5 years without action being taken to recover it from their gratuities/ sureties.

2.8 Idle Reserves

Reserves in the income and expenditure account amounting to Rs.34,973,890 remained idle.

2.9 Vehicle Utilization

- (a) Sixteen vehicles of the Council remained parked in the premises of the Council. 5 of them had not been made use of, for over 10 years.
- (b) The officer who used the vehicle No.NN7977 for performing 1,238.3 kilometres of journey to Kandy, Nuwara Eliya and Colombo had not signed the running chart.
- (c) Fuel consumption of 8 vehicles could not be verified in audit due to damaged milometers.

2.10 Uneconomic Transactions

The entire payment of electricity charges for the Commissioner's division and divisions such as work, tax, accounts, purchases, health, establishment, planning, fire extinguishing, vehicles, worksites, security, ayurveda and for the sub office at Nallur, audit branch and primary school amounted to Rs.926,057 whereas a sum of Rs.738,618 had been paid as electricity charges for the Mayor's conference hall alone.

2.11 Salaries paid without Approval

- (a) A technical officer had been appointed without an appointment letter from the Provincial Public Service Commission contravening Section 8 of Chapter II of the Establishments Code and a sum of Rs.207,581 had been paid as salaries on a decision made by the Finance Committee of the Council.
- (b) The reappointment of an Administrative officer had been rejected by the Commissioner of Local Government. But, a sum of Rs.64,684 had been paid as salaries on a decision made by the General Council.

2.12 Fruitless Expenditure

According to the estimates prepared by the Water Works Division, a 2.2 kw – 3 phase submersible water pump was required to be purchased. However, 3 kw submersible water pumps had been purchased by the Council for Rs.805,964 during the year under review. But, the tank fitted with these 3 submersible water pumps operating with 40% capacity had been broken as at the date of this report and 2 submersible water pumps only remained at the stores without entries been made in the register. The amount spent had become fruitless within one year.

2.13 Operating Inefficiencies

- (a) A sum of Rs.168,504 had been paid to the DIMO (private) Ltd., on 04 October 2013 to repair a motor. The motor which was to be repaired within 4 weeks had not been repaired upto the date of this report. As a result, the water supply from the Thirunelvely Water Supply Centre had been halted.
- (b) The sum of Rs.6,143,340 granted to the Council for capital work had not been utilized. Instead, it was lying in the Miscellaneous Deposit Account. As a result, it was observed that the public had not derived the benefits due to them.

2.14 Weaknesses in Systems

- (a) Separate registers had not been maintained for fuel consumed by vehicles of the Council. As such, the consumption of fuel, as shown in the daily running charts of vehicles could not be separately verified in audit.
- (b) Entries in job cards maintained by the worksites had not been updated and as such the expenditure incurred on labourers per job could not be verified.

2.15 Project not Executed

Although an expenditure of Rs.3,212,962 had been shown as expenditure incurred on 07 capital work executed without estimates, agreements etc., it was observed in audit that these work had not commenced upto the date of this report.

3. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- (a) Collection of Revenue
- (b) Fixed Assets
- (c) Accounting
- (d) Personnel
- (e) Donations
- (f) Vehicle Utilization
- (g) Miscellaneous Deposits
- (h) Budget